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News Release

FOR IMMEDIATE RELEASE

Thursday, Oct. 22, 2009

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Illinois couple now charged with tax evasion in connection with scheme to defraud Best Buy

An Illinois couple previously indicted in federal court for fraud and money laundering in connection to a scheme to defraud Richfield-based Best Buy Co., Inc., now faces tax conspiracy and tax evasion charges as well. A superseding indictment, filed earlier today, charges Russell Adam Cole, 49, and his wife, Abby Rae Cole, 52, of Deerfield, Illinois, with four counts of tax evasion and one count of conspiracy to defraud the United States in addition to the charges filed against them previously, which included one count of conspiracy to commit mail fraud and wire fraud, 12 counts of mail fraud, six counts of wire fraud, one count of conspiracy to commit money laundering, and one count of transactional money laundering.

The superseding indictment alleges that the Coles, owners of Chip Factory, Inc., a computer parts distribution company, conspired from 2004 to 2008 to defraud the U.S. by understating Chip Factory's and their individual income to the Internal Revenue Service. The superseding indictment alleges that the Coles accomplished the fraud in a number of ways. For instance, the Coles understated the company's gross receipts from 2004 to 2007 by re-selling to Chip Factory suppliers various computer parts that Best Buy, Chip Factory's main customer, had returned. They allegedly instructed those suppliers to make payments for the parts to Russell Cole personally instead of to Chip Factory. Upon receipt of the payments, the Coles deposited the checks into a bank account separate from that of the company. The indictment indicates, for example, that between 2004 and 2007, one Chip Factory vendor provided checks made out to Russell Cole personally, totaling more than \$900,000. The Coles then allegedly omitted that income as well as similar income from their corporate or individual tax returns.

Moreover, the superseding indictment alleges that in addition to understating Chip Factory gross receipts in general over a four-year period, the Coles understated the company's gross receipts by more than \$3 million for 2006 alone. To accomplish that, the Coles purportedly represented to their outside accountant that the value of parts returned by Best Buy during the year had not been noted in the company's books. As the defendants allegedly knew, however,

those returns had indeed been recorded. Nonetheless, in late 2007 the Coles filed amended federal individual and corporate returns for 2006, citing the false information. The superseding indictment alleges the Coles were motivated to lower their tax liability at that time because Best Buy had recently discovered the alleged bidding fraud and terminated its relationship with Chip Factory.

Allegedly, the Coles also overstated on Chip Factory's tax returns the cost of goods sold by Chip Factory. To do that, they purportedly directed company employees to inflate the cost of parts purchased from suppliers. Abby Cole personally participated in inflating the cost of Chip Factory purchases. The indictment lists five specific examples when fraudulently-inflated purchase orders were created to falsely reduce Chip Factory's profit margins and income.

The Coles also allegedly paid for personal expenses, including those that appeared on their American Express cards, with Chip Factory funds. According to the indictment, they then classified those expenditures as business expenses on the company's tax returns.

Furthermore, Russell Cole allegedly misrepresented on individual and Chip Factory tax returns the sales and profit from an eBay business he ran. Through that business, he sold computer parts, including parts purchased by Chip Factory specifically for Best Buy. After the parts were sold via the Internet, he allegedly directed Chip Factory employees to send other products to Best Buy service centers, including parts that were used, damaged, or defective. The indictment indicates that from 2005 and 2007, Russell Cole understated his net income from the Internet business by more than \$1.8 million.

As for evading taxes, the indictment charges the Coles with tax evasion for tax years 2004 through 2007. Citing the income figures from the couple's joint individual returns for those years, the government alleges the Coles owe the U.S. "well in excess" of what they reported in federal income tax.

If convicted, the defendants face a potential maximum penalty of 5 years in prison for conspiring to defraud the United States and 5 years in prison for each of the four counts of tax evasion. The original indictment alleged that the Coles conspired to steal more than \$40 million from Best Buy, Inc., by submitting fraudulent invoices for computer parts through Best Buy's automated vendor system. The money laundering charge stemming from that action carries a potential maximum penalty of 10 years in prison, while conspiracy to commit fraud carries a five-year potential maximum. The remaining charges, including 12 counts of mail fraud and 6 counts of wire fraud, as well as conspiracy to commit money laundering and conspiracy to commit mail fraud and wire fraud, carry a potential maximum penalty of 20 years on every count. All sentences are determined by a federal district court judge.

This case is the result of an investigation by the Internal Revenue Service-Criminal Investigation Division, the U.S. Postal Inspection Service, and the Federal Bureau of Investigation. It is being prosecuted by Assistant U.S. Attorneys William J. Otteson and Nicole A. Engisch.

guilty at trial.